

Internal Revenue Service

Department of the Treasury

District  
Director

C-9076  
P.O. Box 1620, 000 Brooklyn, N.Y. 11202

Date: **APR 25 1986**

Employer Identification Number:  
[REDACTED]

Person to Contact:  
[REDACTED]

Contact Telephone Number:  
[REDACTED]

CERTIFIED MAIL

Gentlemen:

We have considered your application for recognition of exemption under section 501(c)(3) and 509(a)(3) of the Internal Revenue Code.

The evidence presented disclosed that you were incorporated [REDACTED] under the laws of [REDACTED]. Your purposes briefly stated is to provide administrative and fiscal management services (Recordkeeping, payroll and other services relating to the disbursement of funds) of federal, state and local grants which fund the [REDACTED] and any and all other duly qualified [REDACTED].

Your membership consists of individuals currently residing, working (whether or not for wages), or otherwise significantly engaged or involved in [REDACTED] and who are interested in the purposes of the corporation.

Your total income is from fees charged ranging from 7% of the total grant (if the program calls for the employment of five or fewer persons) to 10% if the program calls for the employment of more than five persons. The fees are intended to cover all costs with only a small reserve remaining at the end of the year which would be held to fund any extraordinary or unexpected expenses, or any necessary capital expenditures.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable or educational purposes.

Section 1.501(c)(3)-1(a) of the Income Tax Regulations provides that in order to be exempt as an organization described in section 501(c)(3), the organization must be one that is both organized and operated exclusively for one or more of the purposes specified in that section. An organization that fails to meet either the organizational or the operational test is not exempt.

An organization is not exempt merely because its' operations are not conducted for the purpose of producing a profit. To satisfy the "operational test" the organization's resources must be devoted to purposes that qualify as exclusively charitable within the meaning of section 501(c)(3) of the Code and the applicable regulations.

Revenue Ruling 72-369, 1972-2 C.B. 245 states that providing managerial and consulting services on a regular basis for a fee is trade or business ordinarily carried on for profit. The fact that the services are provided at cost and solely for exempt organizations is not sufficient to characterize this activity as charitable within the meaning of section 501(c)(3) of the Code. Furnishing the services at cost lacks the donative element necessary to establish this activity as charitable.

Accordingly we hold that to provide administrative and fiscal management services for an exempt organization at cost are not charitable and therefore the organization does not qualify for exemption from Federal income tax under section 501(c)(3) of the Code.

If you do not agree with this determination, you may request a Conference with the Regional Director of Appeals by protesting in accordance with the enclosed instructions within 30 days.


Protests submitted which do not contain all the documentation stated in the instructions will be returned for completions.

If we do not hear from you within that time, this determination will become final. Appropriate State officials will be notified.

If you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Internal Revenue Code provides in part that "A declaratory judgement or decree under

this section shall not be issued in any proceeding unless the Tax Court, the Claims Court, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service."

Sincerely yours,

  
District Director

Enclosed: Pub 892

cc: 